



### EDITORIAL

A recent **USA Industrial Week** article (1/4/04) was interestingly called "**Faster But Not better**". The article came up with the 2003 census findings that improved manufacturing times don't always result in comparable cost reductions. The census found that approximately 73% of plants had reduced manufacturing cycle times (start of production to completion of product), and 71.6% of plants reduced customer lead time (order entry to shipment) over the last three years. Yet with all the emphasis on speed, less than half of the plants (49.5%) increased total inventory turn rates. The median total inventory turns for the 884 plants was only 8. Australian companies on average make about 4. Manufacturers in the survey may indeed be satisfying customers quicker, but they may be doing so with the added expense of more inventory! Additionally, barely a majority of plants (50.7%) report that their per-unit manufacturing costs (excluding purchased materials) have decreased in the last three years, inferring that faster is not always more cost-efficient.

Returning to operational metrics, what ones are important? The writer has many articles on the subject; in fact, there is a metric for every part of manufacturing, from sales to despatch of product. Professor Schonberger, the engineer who first came up with the term "**world class manufacturing**". His major metric is a company's **inventory turnover rate**, which is a good guide to how well a company is performing. However, different modes of manufacturing; i.e., jobbing, batch and flow-line and process all have different inventory turnover rates; e.g., a jobbing company making complex equipment may be able to get its inventory turnover rate to about four because of long component manufacturing lead times. A simple flow-line manufacturing operation could get its inventory turnover to about 12. Also, because Australia is at the end of the multi-national line, its manufacturing inventory turnover rates are usually much lower than Europe, USA and Japan. So where does that leave Australian manufacturing? **Dr. Ian Brammar** has come up with the World Class company approach of using Added Value Contribution Accountancy methodology to measure performance, which can be used in all modes of manufacture.

**For the effective communication of corporate objectives and their appropriate metrics between levels of the company it is essential to direct a given strategy successfully. In essence you get what you measure!**

Industrial engineering principles enable a manufacturing company to determine the shop-floor labour content, efficiency and utilisation. However, there has been a problem in applying the principles to the **white-collar areas of a company**. The writer has used the **diary approach** of finding what goes on in the white-collar areas. This is a rough and ready approach but gives the consultant an idea of the focus of the white-collar area under investigation. This focus and activity is usually a surprise to all parties. However, a Melbourne company, **Bevington Process Management Tools** has come up with a novel approach, which is called **XeP3**. This **process mapping and measuring tool** can be used to root out the 30%+ of activities (rework, corrections, chasing etc.) which cost the business money and reduce customer service. This canvassing of this tool may appear to be an advertisement, however, the writer has never seen anything like it in 40 years experience!

In fact there is a whole new wave of thinking approaching in terms of holistic approaches and matching methodologies and techniques. These use a much more measured, scientific approach to managing a company so as to achieve bottom-line World Class performance. The first conference in Australia on this topic, **probably the first ever anywhere**, is to be held in Melbourne on the 2<sup>nd</sup> of September this year. See the first notice at the end of the Jottings, you must be there to get and stay ahead!

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**LEAN, Is It Old And Tired, Has It Done Its Job, Should It Retire Gracefully??**

This Edition has been delayed, as May 18<sup>th</sup> to 21<sup>st</sup> saw the biggest LEAN conference to be held in this part of the globe and we thought you may like comments on it. The Organizers at AME Australia are to be congratulated on running probably a more focused event than the equivalent in North America, with some of the best speakers on the subject from around the world. Unfortunately this success allowed the growing deficiencies of LEAN as any sort of overall thinking framework for companies to achieve the holy grail of World Class performance, to be starkly revealed!!

For example on my list of best speakers was Peter Hines from the U.K. He did quite a good job of outlining the missing elements of LEAN. However the best speaker of the ones I was able to hear was John Kim from the U.S.A., an extremely intelligent, erudite individual. Patrick Lucansky, U.S.A. also, closely followed him in quality and interest from my view. All three speakers were starting to tackle a particularly uncomfortable question about LEAN, how do you prioritize the introduction of the various methods from a financial improvement point of view. However the general level of thinking appeared to be about 10 to 15 years behind World Class company methodologies! So either these overseas experts really are out of date, or they are not telling us the latest thinking and how-to.

These comments sound harsh but let us examine some of what LEAN is not doing for us, or is missing but is known to be in place in real World Class performing companies.

**- The Name is Totally Misleading**

At the conference there were comments to me about the name LEAN as being too negative and sounding and appearing as little more than conventional cost cutting.

It is becoming apparent that the word itself and the idea that LEAN when defined as waste cutting, is the tactic behind LEAN has blinkered many people to the wider aspects of the core tactics and strategies needed to convert companies to World Class. More about this in later Jottings.

**- Limited Focus on developing only one or two areas of a company such as manufacturing operations**

This, at a higher level, has a similar lack of effect on bottom-line performance as developing a single machine or process to the exclusion of the others in a sequential series of processing steps.

The latter was the situation prior to the development of Just-in-time and TPS and was the "Eureka" for Taichii Ohno and his team at Toyota. Several speakers at the conference pointed out this lopsided development unbalances the company and can even reduce profitability and R.O.I.

**- Lack of the two core strategies of a World Class Company.**

If you only introduce a core tactic such as the one behind LEAN without installing the core strategies you are essentially rudderless and any move towards World Class performance is in the arms of lady luck!

**- Concentration on one particular technique to the exclusion of a core knowledge as to whether this is the number one development priority**

I have recently heard several LEAN "experts" say that it is a matter of faith going into LEAN. They add that you cannot measure the benefits upfront, particularly financial ones!

This makes me feel particularly uncomfortable as companies moving in a structured way towards World Class can do this quite well. They can even prioritise the introduction of various methodologies and new skills to get steady improvements in bottom-line performance for "fast tracking" to World Class.

**- Lack of a clear cut method of connecting desired financial improvements to actual action measures on the shop-floor**

This is one of the largest gaps in LEAN and makes the financial people and people like myself very uncomfortable.

It is one of the most powerful knowledge and skill advantages possessed by the real World Class companies. It is foremost in their arsenal of "secret weapons".

**- A proliferation of fluffy/wooly methods around LEAN which are either time wasting or even wrong**

I know that the sun shines out of the proverbial from some overseas experts, but a number of things must be remembered. Firstly in the case of a number of techniques flowing from the U.S.A. these have in many cases been designed for large companies. In the latter case it may be necessary to "guild the lily", but in the case of most of our companies only a few core bits of any method such as Value Stream mapping are often required.

World Class companies use Added Value Contribution Accounting for very good reasons, not the unsuitable time wasting Activity Based Costing or anything related to it.

**(Jottings of Janus - Continued from Page.2)**

I could go on with this list but I hope I have at least made you think that it is rarely better to do something just for the sake of it, rather than spending some time up-front learning the basics of leading-edge, modern World Class Management.

Having said this, where do you find these basics? Well I am sorry to say that the experts are only just putting together the final touches to the complete thinking and action frameworks for getting any company, including yours, to real World Class performance.

In fact the ManSa conference and debate on the 2<sup>nd</sup> of September this year is believed to be the first time this has been attempted publicly anywhere in the World!!

So you are in for a real treat this year. My advice is that you and the appropriate people from your company should first study the AME conference disc with a critical eye to learn some of the basics of the latest techniques and thinking from the various LEAN practitioners.

Then if you are a member of one or more of the key decision-making loops in your company, come to the ManSa conference on 2<sup>nd</sup> of September to get ideas on how to put it all together. The aim being to achieve rapid financial and overall business performance for your company at minimum cost, in minimum time and with the most efficient use of your senior managers' time.

Also learn how to delight your financial people, your Board, your investors, your customers, your employees and particularly yourself, and feel great!!

So coming back to our title, LEAN as an **overall management methodology** has reached its "use by" date. However its techniques and methods, some of which are invaluable for specific types of companies, will go on being used as part of the World Class toolbox of methods, skills, tactics and strategies. **LEAN'S main use at this AME conference was to emphasize that leading-edge management methodology is a major, possibly the major, competitive weapon for most companies, unfortunately LEAN is not the overall methodology!**

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**BREAKING NEWS**

**- FOR THE FIRST TIME EVER, ANYWHERE!!**

**- A VITAL DATE FOR YOUR DIARY**

**ManSA is holding a one day conference and debate for Senior Managers:**

**"FAST TRACK TO WORLD CLASS PROFITABILITY"**

**On 2<sup>nd</sup> September in Melbourne at The Carlton Crest Hotel**

**-This is the conference and debate you have been waiting for, it is designed for senior managers who never attend conferences and have given up expecting to hear anything new!**

**-It is particularly suitable for those cynics amongst you who think you have heard it all, and believes there has been nothing new in the way you manage companies since 1985! Or should it be the last 50 years?**

**-Designed for those who wish to not only beat their competitors, but also flatten them!**

**-How to compete so that you don't need to move offshore!**

**-How to answer the questions posed in these jottings and much more!**

**PLACES ARE LIMITED, so book early to avoid disappointment and also take advantage of the early-bird discount.**

**SEE DEVELOPING DETAILS AND BOOK YOUR PLACE USING THE REGISTRATION FLYER ON THE CONFERENCE WEB SITE:**

**<http://www.mateng.asn.au/mansa>**